



UNIVERSITI
TEKNOLOGI
MARA

Institut
Pengajian
Siswazah

THE DOCTORAL RESEARCH ABSTRACTS

Volume: 14, October 2018

14th
ISSUE



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Title : UNDERSTANDING THE PRACTICES OF ACCOUNTING POLICY TREATMENT FOR ZAKAT MEASUREMENT IN ISLAMIC BANKS THE CASE OF BANK ISLAM MALAYSIA BERHAD

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Islamic banks play a significant role in redistribution of wealth in society through the implementation of Zakat. These banks aim at providing Islamic financial products and services such as Zakat to their customers in accordance with the Islamic principles and guidelines (i.e., Shariah). Zakat computation is necessary for Islamic banks to fulfil their duty and obligation. The collection of Zakat needs reliable and efficient accounting principles and rules that will provide a proper and fair assessment of the Zakat payment. This study aims to investigate and examine the accounting policy procedure for the determination and measurement of the items included in the Zakat base. In particular, the objectives of this study are (i) to determine whether Bank Islam Malaysia Berhad (BIMB) should or should not use the market-selling price (the current value of the assets) for Zakat payment, (ii) to investigate the accounting basis (cash or accrual basis) that is used for Zakat purpose, and (iii) to examine various schools of thoughts on how the Zakat on debts (accounts receivable – liabilities) should be addressed. For achieving the study objectives, a qualitative content analysis and a single case study were conducted. Firstly, literature on Zakat accounting measurement from the

Islamic perspective based on Al-Quran, Assunnah, and Islamic scholars' opinion. Secondly, personal interviews were held with accountants, Shariah Committee Members, and Internal Auditors. Thirdly, the data drawn from the transcribed interviews, observation notes, and documents were analysed using content analysis. These data have provided answers to the research questions and clarified how BIMB follows its current practices in calculating Zakat and to what extent it does comply with the Sharia. The results of data analysis showed that the fair value measurement approach is adopted and used to measure the financial assets and liabilities that are subject to Zakat payment. The study outcomes also indicate that the accrual basis of accounting are applied in the preparation of financial statements of BIMB. On the other hand and with reference to the issue of Zakat on debts, this study found that BIMB is following, and abiding by, the rules of AAOIFI and the Manual Pengurusan Zakat Perbankan. Meanwhile, the bank has to amend in an efficient way when the Zakat is computed.